

**NATIONAL
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OF FEDERAL
EMPLOYEES**

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**STATEMENT BY
THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES
BEFORE
THE HOUSE COMMITTEE ON POST OFFICE AND CIVIL SERVICE
ON
A RETIREMENT PROGRAM FOR FEDERAL EMPLOYEES
HIRED AFTER 1983**

MARCH 6, 1984

Mr. Chairman and Committee Members: We appreciate the opportunity to testify on the design of a new retirement program for employees hired by the Federal Government after 1983. The issue is extremely important to our membership and we welcome the chance to discuss our position.

Civil service employees hired on or after January 1, 1984 are fully covered by social security and civil service retirement. The required payroll contribution for this dual coverage would normally be 14 percent (7% for social security and 7% for civil service retirement). But Congress recognized the serious financial hardship this would place on employees and approved Public Law 98-168, which reduces the total salary deduction to 8.3 percent while still maintaining full coverage under the two systems. The law expires January 1, 1986, at which point the 14 percent salary deduction goes into effect.

Congress gave itself two years to design a new civil service retirement system which, combined with social security, would meet the financial needs of Federal workers upon retirement. Unlike the current system, which is intended to be the major source of income for civil service annuitants, the new system would be a supplemental plan. It would be more modest than the current program, hence requiring a smaller payroll contribution from employees.

There are now 22 months remaining before P.L. 98-168 expires. This amount of time affords Congress the opportunity to exercise caution in developing the supplemental civil service retirement program. Caution, we believe, is essential, for we are discussing a program that will eventually provide for the financial security of millions of Federal employees and their families. And we are entering a complex, sensitive area where disaster lurks at every turn. Should Congress rush the project through, it is inevitable that the new plan will be flawed. We would then begin the endless, and probably futile, process of trying to patch together a decent program. We dread to think of the uncertainty, insecurity, and low morale this would create among employees, and the time and attention it would demand of Congress.

A retirement annuity, of course, is the most important job benefit for both workers and management. With average life expectancy and length of retirement increasing, it gives employees peace of mind during their careers and financial security following them. For the employer, pension benefits help to manage the workforce, defer compensation obligations, and enhance labor-management relations.

This fact is especially true in the Federal Government. Retirement is probably the only major benefit earned by civil servants which compares favorably with similar programs in the private sector. According to the Bureau of Labor Statistics, Federal pay rates are far below industry standards, and our health and life insurance plans are sorry imitations of those in the private sector. Annual and sick leave benefits may be about the same, but Federal workers do not receive stock options, generous bonuses, and other perquisites offered by large corporations to attract and retain talented employees. Civil service retirement, therefore, is the cornerstone of the Federal compensation system. It is the primary incentive for individuals to enter Government service and to pursue Government careers.

For these reasons, the new supplemental civil service retirement system, when combined with social security, must provide benefit levels comparable to those of the current system. You simply cannot ignore the fact that other aspects of Federal compensation are worth less than their counterparts in private industry. Should civil service retirement also fall below private sector standards, the Government would find it virtually impossible to recruit and retain talented employees.

By comparable benefits, we also refer to age and service requirements. As you know, most Federal employees may currently retire at age 55 with 30 years of service; at age 60 with 20 years of service, and at age 62 with 5 years of service. These requirements are often attacked as being too liberal, particularly by those who do not know or who choose to disregard their real impact. The current age and service requirements are responsible for an average Federal employee retirement age that is almost exactly the same as the average in private industry. According to the General Accounting Office, Federal workers retire at an average age of 61.1; private sector employees retire on the average at age 61.8.

Inflation protection should also be part of the new retirement system. It is neither wise nor fair to design a program which provides a certain level of benefits upon retirement but does not regularly adjust the value of these benefits in relation to the rising cost-of-living. The reduction in purchasing power which would inevitably ensue would place a burden not just on the retirees, but on all of society.

We recognize that few retirement plans in private industry offer full inflation protection, although most plans are integrated with social security which is adjusted annually for increases in the cost-of-living. But instead of eliminating regular COLAs in the new supplemental retirement system, private industry

should move to provide full inflation protection in their annuity programs. In other words, private industry plans in this specific area should be improved; we should not weaken the existing civil service provisions. This would be in the best interests of society as well as Federal and private sector workers.

To summarize, benefit levels comparable to the current civil service retirement program should be the primary goal of new program, particularly in the areas of wage replacement rates, age and service requirements, and inflation protection. We hope the Committee can meet this goal during its deliberations.

In the overall structure of employee compensation, especially in the Federal sector, retirement benefits are extremely important. But the Committee, during this era of \$200 billion budget deficits, must consider cost as well as benefit levels. Committee members face an extremely difficult task, and perhaps new approaches to pension design must be explored. We encourage the Committee to explore them. We are confident that this panel will not overlook the needs of individual employees as well as the entire Federal personnel system when developing the new plan.

This concludes my statement. I will be happy to answer any questions.